WESTERN DEPARTMENT STORES

REPORT
to
STOCKHOLDERS

January 31, 1948

Stores operated:

OLDS, WORTMAN & KING	KAHN'S	RHODES BROTHERS
Portland	Oakland	Tacoma
Est. 1851	Est. 1879	Est. 1892

WESTERN DEPARTMENT STORES

A California Corporation — Incorporated in 1937

BOARD OF DIRECTORS

Harold V. Boggs	F. R. McGrew
Herbert E. Clayburgh	John J. Reilly
John J. Goldberg	F. A. Wickett

Cecil L. Martin

OFFICERS

John J. Reilly	*President*
Herbert E. Clayburgh	*Vice-President*
F. R. McGrew	*Vice-President and Treasurer*
Harold V. Boggs	*Vice-President in Charge of Merchandising*
Harry A. D. Smith	*Vice-President and Manager of Olds, Wortman & King*
Cecil L. Martin	*Vice-President and Manager of Rhodes Brothers*
E. F. Shinn	*Secretary*
John J. Goldberg	*Assistant Secretary*
R. L. Childs	*Assistant Secretary*
A. K. Humble	*Assistant Secretary*
H. W. Rheubottom	*Assistant Treasurer*

LEGAL COUNSEL

Jesse H. Steinhart

PUBLIC ACCOUNTANTS

Price, Waterhouse & Co.

TRANSFER AGENT

The Anglo California National Bank
of San Francisco
No. 1 Sansome Street
San Francisco 20, California

REGISTRAR

Wells Fargo Bank & Union
Trust Co.
Montgomery and Market Streets
San Francisco, California

Annual Stockholders Meeting	Oakland, California, Tuesday, May 25, 1948, 11:00 o'clock A.M.
Executive Offices	1501 Broadway, Oakland, California (Kahn's Department Store)

Oakland, California
May 4, 1948

To the Stockholders of

WESTERN DEPARTMENT STORES:

Submitted herewith are financial statements of your corporation for the fiscal year ended January 31, 1948, examined and reported upon by our independent auditors, Price, Waterhouse & Co. These statements reflect the operation by the corporation of its three department stores: Kahn's, Oakland; Olds, Wortman & King, Portland; and Rhodes Brothers, Tacoma. Morrison & Tenth Company (the company which held the lease upon the property occupied by the Portland store) was dissolved on January 28, 1948 upon completion of negotiations for our new lease of that store.

As shown by the comparative statement of profit and loss included in the accompanying financial statements, sales of our stores increased over those for the previous year and reached an all time peak, but profit margins narrowed due in part to a return to pre-war gross margin patterns and to higher operating costs partly induced by generally augmented wage levels. The operations of the Oakland store continued to be adversely affected by a strike of the Clerks' Union which commenced October 31, 1946 and lasted until May 9, 1947. However, it is a pleasure to report to you that our employee relations are once again on a sound and cooperative basis.

Earnings per share on the 346,364 shares of common stock outstanding as of the close of the fiscal year amounted to $3.96 per share compared to $5.31 per share earned in the previous year. The operating results for the past five years are presented hereunder:

Year ending January 31	Sales	Profit before Federal Taxes	Federal Taxes	Net Profit
1948	$30,334,825	$2,228,745	$ 855,000	$1,373,745
1947	28,899,078	2,989,947	1,150,000	1,839,947
1946	25,345,474	3,436,434	2,385,000	1,051,434
1945	22,765,350	3,296,685	2,425,000	871,685
1944	20,343,490	2,778,556	2,042,000	736,556

Changes in the working capital of the corporation during the last five years may be shown as follows:

Year ending January 31	Current Assets	Current Liabilities	Working Capital
1944	$4,555,607	$2,318,392	$2,237,215
1945	4,864,779	1,975,849	2,888,930
1946	6,207,167	2,262,058	3,945,109
1947	6,985,910	2,294,235	4,691,675
1948	8,664,120	2,938,470	5,725,650

The ratio of current assets to current liabilities this year is 2.95 to 1 as compared to 3.0 to 1 a year ago.

The extensive program of modernizing the three stores which was started last year is progressing satisfactorily. The work in the Portland store is substantially complete and includes as its principal items installation of escalators from the first to the third floors and three new passenger elevators. The cost was $613,835. In the Oakland store the new ground floor space at Broadway and Sixteenth Street, with a frontage of 100 feet on Broadway, has been remodeled, both interior and exterior, and has been occupied since October, 1947. Escalators from the first to the third floors have been installed and are in operation. Installation of three new passenger elevators and of an escalator to the basement is in progress, as are other substantial improvements. For this work the corporation expended during the last fiscal year $422,485 and estimates the additional cost will be $814,000. A new front for the Tacoma store is planned at a cost of approximately $100,000.

In connection with and as a result of the program of modernization of our stores, arrangements have been made with a bank for the purpose of financing the improvements and for working capital. Under these arrangements a maximum amount of $1,500,000 may be borrowed (to be repaid in nine annual payments commencing January 1, 1950) and it is believed that it will be necessary to reach this maximum, of which $800,000 has already been borrowed.

Dividends have continued to be paid at a rate of 40 cents a share quarterly and a dividend of the same amount was also paid on April 1, 1948.

With the return to more normal operating conditions and a better balance of supply and demand, department stores are bound to experience keener competition both from stores of their own type as well as chains and smaller independent merchants. Increased operating costs with substantially heavier payrolls and depreciation charges will place a greater premium on operating efficiency.

Inventory requirements continue high due partly to higher unit costs and certain shortages which still exist.

A greater percentage of our sales is reflected in charge accounts, resulting in an increase of accounts receivable during last year of $949,860, with a comparable direct effect on the corporation's cash position. This trend we expect to increase and we will continue to promote charge business. To that end, our Oakland and Tacoma stores have recently installed "Charge-A-Plate" to facilitate service to charge account customers.

The loyalty of the organization is commendable. There are many who have devoted themselves to their tasks and have given of themselves beyond the call of duty, particularly through the difficult war and post-war years. Such loyalty and devotion are deeply appreciated.

For the Board of Directors,

President.

JOHN J. REILLY,

ACCOUNTANTS' REPORT

San Francisco 4
April 23 1948

To the Board of Directors of
WESTERN DEPARTMENT STORES:

We have examined the balance sheet of Western Department Stores as at January 31 1948 and the statement of profit and loss and earned surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards and included such tests of the accounting records and other procedures as we considered necessary in the circumstances.

In our opinion, the accompanying statements present fairly the position of Western Department Stores at January 31 1948 and the result of its operations for the year in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PRICE, WATERHOUSE & CO.

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BALANC

(See accompanying note

ASSETS

	January 31 1948	1947
Current Assets:		
Cash in banks and on hand	$ 1,455,174.60	$ 922,151.81
Accounts receivable:		
Customers	$ 2,969,820.06	$2,019,959.71
Sundry	96,646.85	186,319.40
	$ 3,066,466.91	$2,206,279.11
Less—Reserve for doubtful accounts	243,061.55	193,878.91
	$ 2,823,405.36	$2,012,400.20
Inventories of merchandise:		
On hand, at or below cost, as determined by the retail inventory method	$ 3,753,601.93	$3,328,851.47
In transit, at cost	631,938.58	722,506.59
	$ 4,385,540.51	$4,051,358.06
Total current assets	$ 8,664,120.47	$6,985,910.07
Miscellaneous Investments, Deposits and Advances	$ 49,146.94	$ 48,362.63
Property Accounts, at cost:		
Buildings, furniture and fixtures, etc.	$ 1,326,720.82	$1,190,617.97
Leasehold and improvements to leased buildings	1,632,289.52	1,109,417.49
	$ 2,959,010.34	$2,300,035.46
Less—Reserves for depreciation and amortization	1,611,363.18	1,545,154.77
	$ 1,347,647.16	$ 754,880.69
Land (including undivided one-half interest in real estate—$138,979.76)	212,479.76	212,479.76
	$ 1,560,126.92	$ 967,360.45
Deferred Charges:		
Unexpired insurance, prepaid taxes and other expenses	$ 166,192.84	$ 174,007.48
	$10,439,587.17	$8,175,640.63

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LIABILITIES

		January 31	
		1948	1947
Current Liabilities:			
Accounts payable, trade		$ 1,866,028.97	$1,221,883.26
Payrolls, taxes and other accrued liabilities		992,967.64	995,593.31
Estimated reserve for Federal income taxes		879,473.59	1,176,758.92
Less—United States Treasury Tax Notes, Series C		(800,000.00)	(1,100,000.00)
Total current liabilities		$ 2,938,470.20	$2,294,235.49
Note Payable to Bank to be renewed on due date January 1 1949 (Note A)		$ 800,000.00	
Surplus Appropriated for Possible Future Decline of Inventory Values		$ 500,000.00	$ 500,000.00
Capital Stock and Surplus:			
Capital stock:			
Common, par value $0.50 per share:			
Authorized	600,000 shares		
Issued	351,364 shares		
Less—In treasury	5,000 shares		
	346,364 shares	$ 175,682.00	$ 175,682.00
Excess of par value of 6% cumulative convertible preferred stock over par value of common stock issued in exchange therefor		1,610,040.00	1,610,040.00
Stated capital		$ 1,785,722.00	$1,785,722.00
Paid-in surplus		$ 240,350.00	$ 240,350.00
Earned surplus since reorganization April 8 1937, per statement attached (Note A)		$ 4,175,044.97	$3,355,333.14
Contingent Liabilities (Note B)			
		$10,439,587.17	$8,175,640.63

WESTERN DEPARTMENT STORES

STATEMENT OF PROFIT AND LOSS AND EARNED SURPLUS

(See accompanying notes to financial statements)

	Year ending January 31	
	1948	1947
Net sales, including leased departments	$30,334,824.58	$28,899,078.62
Less—Sales of leased departments	4,475,546.79	3,718,258.87
	$25,859,277.79	$25,180,819.75
Cost of merchandise sold	17,734,013.32	17,171,894.07
Gross profit—own departments	$ 8,125,264.47	$ 8,008,925.68
Discounts on purchases	725,021.83	718,453.56
Gross income from leased departments	565,120.98	485,788.72
Other income and credits	126,458.32	131,402.13
	$ 9,541,865.60	$ 9,344,570.09
Selling, general and administrative expenses	$ 6,922,502.16	$ 6,037,286.40
Contribution under profit sharing retirement plan	237,483.14	215,730.59
Provision for depreciation and amortization	67,487.89	61,661.78
Interest	4,452.69	3,421.44
Other charges	81,195.09	36,522.91
	$ 7,313,120.97	$ 6,354,623.12
	$ 2,228,744.63	$ 2,989,946.97
Estimated provision for Federal income taxes	855,000.00	1,150,000.00
Profit for year (Note C)	$ 1,373,744.63	$ 1,839,946.97
Earned surplus at beginning of year	3,355,333.14	2,134,128.83
	$ 4,729,077.77	$ 3,974,075.80
Excess of redemption price over par value of 48 shares of 6% cumulative convertible preferred stock redeemed		$ 72.00
Purchase price of 5,000 shares of common stock held in treasury		109,809.88
Dividends paid in cash:		
Common stock—$1.60 and $1.45 per share, respectively	$ 554,032.80	508,221.00
6% cumulative convertible preferred stock—$.37½ per share		639.78
	$ 554,032.80	$ 618,742.66
Earned surplus at end of year (accumulated since reorganization, April 8 1937)	$ 4,175,044.97	$ 3,355,333.14

WESTERN DEPARTMENT STORES

NOTES TO FINANCIAL STATEMENTS

JANUARY 31 1948

NOTE A:

The loan agreement with the bank provides for aggregate borrowings of $1,500,000 up to January 1 1949 for the purpose of financing the cost of improvements to store premises and for working capital. All loans made under the agreement shall be evidenced by notes having a due date of January 1 1949, at which time the balance then owing may be converted into a note payable in annual instalments beginning January 1 1950 and ending January 1 1958. The loan agreement also provides that dividends may be paid only out of net earnings after January 31 1947.

NOTE B:

The corporation is undertaking extensive improvements and alterations to the Oakland and Portland store premises. At January 31 1948, the aggregate cost to complete these improvements was estimated to be approximately $850,000, of which approximately $105,000 will be borne by the lessor of the Oakland store premises.

NOTE C:

The statement of profit and loss includes the operations of Morrison and Tenth Company, a wholly owned real estate subsidiary dissolved on January 28 1948.